

FEDERAL HOME LOAN BANK OF CHICAGO

2002 COMMUNITY LENDING PLAN

I. Introduction

Pursuant to 12 C.F.R. Sections 952.4 and 936.6, the Federal Home Loan Bank of Chicago (Bank) has developed the Bank's Annual Lending Plan. The Bank's 2002 Community Lending Plan (Plan) builds upon the first Community Lending Plan of 2000, as credit needs identified in that year's Plan have not materially changed. This Plan consists of four parts. Part II describes Bank Activities in 2002. Part III outlines Quantitative Performance Goals for 2002, and Part IV reviews how members are notified of opportunities that enable them to meet community support requirements and to engage in economic development lending. Recent economic assessments conducted by federal and state authorities, including the Federal Reserve Bank of Chicago, Illinois Department of Commerce and Community Affairs and the Wisconsin Department of Revenue indicate weakening economic conditions for the states of Illinois and Wisconsin, with a long-term outlook that is unclear.

II. Bank Activities in 2002

A. *Encourage Broader Use of Community Investment Cash Advance (CICA) Products*

➤ *Increase Member and Community and Economic Development Organization Awareness of CICA Products.*

- Create a marketing plan that targets economic development organizations
- Build relationships with housing and economic development partners.
- Support and participate in conferences and workshops with community and economic development organizations.

➤ *Coordinate marketing efforts by Banking and Community Investment Departments to increase use of CICA products.*

- Co-host informal seminars throughout the district.
- Develop marketing materials illustrating the benefits and ease of using the CIP program.

➤ *Offer promotional rates to increase program participation.*

The Bank's Community Investment Program (CIP) advance rate is its cost of funds plus a markup to cover expenses.

- The Bank is offering a 50 basis point rate reduction from the CIP rate during the initial year of a 5-10 year term for qualifying Economic Development Advance (EDA) applications. Thereafter, the rate is increased to the CIP rate at the time the advance was made. An amount of \$25 million has been allotted to this promotion.

- Currently, the Bank is offering a promotional rate, a 5 basis point reduction from the CIP rate, to members that have not received a CIP loan subsequent to 1/1/2000. The Bank has committed \$100,000,000 for this promotional program, and expects to offer a similar promotion for new users in 2002.
- ***Promote utilization of Letters of Credit for community lending activities***

The Bank is soliciting clarification from the U.S. Internal Revenue Service on the use of standby letters of credit as proper credit enhancement for tax-exempt bonds financing housing and other community development purposes. If the outcome is positive, the Bank's Community Investment and Banking departments will resume promotion of the utilization of letters of credit for community lending activities.
- ***Enhance outreach, promotion and targeting of programs to increase customer usage and have a positive community impact.***
 - Develop marketing/informational publications to promote member utilization of the Bank's economic development and housing resources.
 - Continue to provide publications summarizing successful programs and projects to encourage participation by members and partner organizations.
 - Provide information on affordable housing and community development to members and others on the Bank's Internet website, www.fhlbc.com.
- ***Affordable Housing Program***
 - Increase up-front technical assistance to avoid potential monitoring and compliance issues.
 - Enhance the effectiveness of monitoring and compliance reports as management tools.
 - Advocate AHP regulatory simplification with the Federal Housing Finance Board.
 - Make greater use of automation and website for program delivery, monitoring and compliance.
- B. Promote economic development and affordable homeownership opportunities in small and rural communities.***
 - Work with Downpayment Plus[®] administrators to increase the number of rural lenders participating in the program.
 - Encourage the creation of partnerships with Community Action Agencies and other non-profits throughout Illinois and Wisconsin, and member institutions serving their areas to use the Bank as a financing instrument to better serve rural housing and economic development needs.
 - Increase marketing efforts directed to members that serve rural areas, promoting the use of CICA products.

C. *Continue efforts to partner Community Investment Products with the Mortgage Partnership Finance (MPF) Program.*

Participating Financial Institutions delivering mortgage loans in the Mortgage Partnership Finance[®] Program may now include loans with AHP funds that are part of homeownership set-aside programs sponsored by a FHLB, in their delivery commitments.

D. *Provide Financing to Small Business Investment Companies.*

The U.S. Small Business Administration and the Bank have partnered to provide interim short-term financing to Small Business Investment Companies (SBICs.) The primary purpose of this relationship is to make funding available to SBICs in between the semi-annual issuance of debentures by the SBA. Upon notification and authorization of a funding need by the SBA Trustee, the Bank makes available funding within 24-hours. The program is named "Just-In-Time" Funding.

New in 2001 and continuing into the future is a related program titled the Low or Moderate Income (LMI) Debenture program. The LMI Debenture program is available for use by SBICs that issue debt qualifying as "LMI Investments" under section 170.50 of the SBA regulations. The Bank has agreed to purchase all LMI debentures and hold them to maturity. SBICs choose between either a 5-year or 10-year maturity period. This program is primarily designed to assist small businesses that are either owned by low-and moderate-income individuals or are located in low-and moderate-income communities.

All Bank SBIC transactions are guaranteed by the Small Business Administration.

E. *Collaborate with the SBA to Develop a New Market Venture Capital Program.*

During 2002, the Bank will be collaborating with the SBA to develop a program(s) similar to the SBIC programs. New Market Venture Capital (NMVC) Companies will be newly formed for profit investment funds with private management. Their objective will be to promote economic development and the creation of wealth and job opportunities in low-income geographic areas and among individuals living in such areas. NMVC Companies will pursue their objectives by making equity-type investments in small enterprises located in low-income geographic areas.

The SBA will designate and enter into participation agreements with NMVC Companies that details the specific low-income areas to be served, how the area will be served, what results are to be achieved, and how the success of the NMVC Company will be measured.

All Bank NMVC Company transactions will be guaranteed by the Small Business Administration.

F. *Conduct ongoing market research to assess unmet credit needs and market opportunities for community lending.*

The Bank will further encourage the use of CICA programs by working with new and existing stockholders, assisting them in identifying needs in their lending areas, designing programs to address those needs, and determining the most appropriate product to address those needs. In addition, in 2002 the Bank will:

- Evaluate the demand for a targeted use by smaller multi-family projects.
- Enhance the Community Investment Department's capacity to develop and deliver new initiatives.

G. *Technical Assistance*

The Bank will provide technical assistance to stockholders and housing and economic development organizations in the district on an ongoing basis, including assistance in the preparation of AHP, CIP, EDA, and LOC applications. Technical assistance activities include presentations and co-sponsorship of community lending workshops and seminars, consultations with members and housing development organizations, and continuous availability through phone contact.

F. *Consult with Advisory Council and Others*

The Bank will consult with its Advisory Council and with members, nonmember borrowers, and public and private economic development organizations in the Bank's district in developing and implementing its Community Lending Plan.

III. Quantitative Performance Goals for 2002

Dollars in CICA Advance Originations (exclusive of AHP applications)	\$230 million
Number of competitive AHP applications	110
Number of non-AHP CICA applications	90
Number of rural lenders participating in the Downpayment Plus [®] program	33
AHP/CICA seminars for member institutions and Community based organizations	8
Number of specific conferences and workshops which the Bank will participate in or support	6

IV. Annual Notification to Member Institutions

Each year the Bank informs members and others of CICA programs and other Bank activities that enable members to meet community support requirements and engage in community lending. Notification is provided using the following methods:

- Press Releases
- Special mailings
- Community Investment Advisory Council Annual Report
- Bank publications
- The Bank's website, www.fhlbc.com